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October 22, 2002

TO: Each Supervisor

FROM: Thomas L. Garthwaite, M.D.
Director and Chief Medical Officer

SUBJECT: **OFFICE OF INSPECTOR GENERAL (OIG) DRAFT AUDIT OF CALIFORNIA MEDICAID INPATIENT DISPROPORTIONATE SHARE HOSPITAL PAYMENTS FOR LOS ANGELES COUNTY HOSPITALS, STATE FISCAL YEAR 1997-1998**

The United States Department of Health and Human Services, Office of Inspector General, recently released a draft audit related to inpatient disproportionate share hospital (DSH) payments to Los Angeles County Department of Health Services (DHS) hospitals. The OIG draft report states:

"We recommend the state work with CMS to address and resolve more than \$142 million representing the federal share of DSH payments in excess of the limits for five LAC hospitals. We attributed the entire amount of the excess DSH payments to the finding for actual incurred costs and payments. The state plan was silent on the use of or reconciliation to incurred costs and payments. Nevertheless, we believe that the state plan's silence did not invalidate the intent of section 1923 of the act or its implementing guidance.

In a subsequent report on the California Medicaid Inpatient DSH program, we will include recommendations pertaining to the California Medicaid state plan and state processes for determining the limit."

The OIG has taken the position at this point that the State computed OBRA '93 hospital-specific DSH caps based on a formula more liberal than the OIG feels is appropriate for final determination of allowable DSH payments. There is a similar report for the State as a whole for \$309 million, although it is not clear whether this

figure includes just remaining public hospitals or if it includes private DSH hospitals as
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well. The OIG has given the State until about the end of November of this year to provide a formal response.

On October 15, we attended an exit conference with the OIG, State Department of Health Services, California Association of Public Hospitals, County Counsel and contract legal counsel. Counsel feels there are good grounds for disputing the OIG's audit findings and is in the process of preparing a response from the County, which the State has indicated they will attach to their response. The OIG expects to release their final report, with the responses attached, in mid-December.

I will keep you apprised of significant developments in this matter as they occur.

TLG:amg

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors
Auditor-Controller
County Legislative Strategist

(OIG DRAFT AUDIT-1)